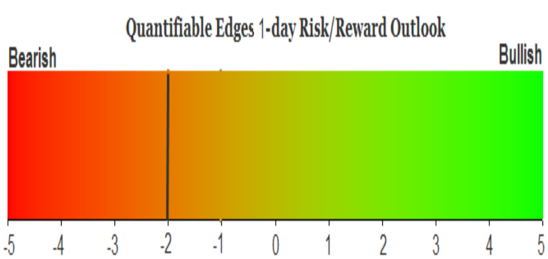
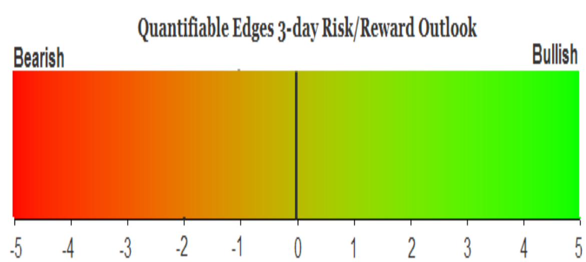
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 30, 2011 Volume 4 Issue 231

## Market Overview




## Signals Overview

| Aggregator | Aggressive VIX | Conservative VIX | NDX Trend Timer |
|---|---|---|---|
| Flat | 50% Long XIV | Flat | Flat |

## *Tonight's Research Points*

- Mid-range and well off the recent lows there nothing new suggesting an edge tonight.
- Thursday is the 1st of the month. Typically bullish that edge may not hold true under current conditions.

### *Short-term Outlook*
### *The Bottom Line*

After 2 days of bouncing the SPX is now overbought. With expectations still positive the Aggregator is neutral and so am I.

### *Summary of Recent Active Studies (see Letters from listed dates for details)*

| Study Date | Description | Time span | Bias | Avg Max Move |
|---|---|---|---|---|
| Active | | | | |
| November 29, 2011 | 2.5% rise from 20-low on 5-hi vol | 1-5 days | Bullish | 4.20% |
| November 29, 2011 | Aft 20low SPY low > 1% abv yest close. | 1-2 days | Bearish | |
| Active - Long Term | | | | |
| November 22, 2011 | 1.75 drops sandwich a lesser one | 1-10 days | Bullish | |
| November 22, 2011 | SPX sell off hard, but VIX doesn't spike | 1-10 days | Bearish | |
| November 18, 2011 | Triangle breakdown | int term | Bullish | |
| October 30, 2011 | SPX & bond yields hit 50-day highs | 1-50 days | Bearish | |
| October 19, 2011 | 50-day high on 90% up vol | 1-50 days | Bullish | |
| October 19, 2011 | FTD on strong breadth/20day high | int term | Bullish | |
| Dropped Tonight | | | | |
| November 29, 2011 | 99% Up Vol % Rank after 20-day low | 1 day | Bearish | |

If the avg max move is achieved the study will appear in ***bold italic blue*** and no longer be active.

***The Evidence***

The indices were mixed on Tuesday with the large caps leading. The SPX gained 0.2% while the Nasdaq declined 0.5% and the Russell 2000 lost 0.3%. Breadth was mildly negative as the NYSE Up Issues % and Up Volume % both came in at 48%. Total NYSE volume dipped a little from Monday's level.

Nothing substantial came up in the Quantifinder and my own queries failed to uncover anything compelling and new. This wasn't terribly surprising. Tuesday was basically a consolidation day and the SPX is now fairly close to the middle of its recent range. If it can continue to avoid a selloff for the next 3-4 days then that could be a very bullish sign. Still, a brief bout of selling has been typical based on the breadth and gap studies from last night and as long as it isn't too severe then the market will have a nice chance to rally in the coming weeks.

As we close out the month on Wednesday, many traders will undoubtedly look to Thursday as possibly bullish thanks to the upward seasonal tendency of the 1st of the month. I'll remind traders that the upside tendency appears to wax and wane depending on certain conditions.

One condition to take under consideration is that the SPX is trading below its 200ma. I discussed this a couple of months ago on the blog. Link below.

http://quantifiableedges.blogspot.com/2011/10/beginning-of-month-effect-in-uptrends.html

Another consideration is that if the SPX closes positive on Wednesday it will be the 3rd up day in a row. Short-term overbought conditions have also had a tendency to neutralize the Day 1 upside edge. I showed this in the June 1, 2011 blog post linked below.

http://quantifiableedges.blogspot.com/2011/06/overbought-going-in-to-1st-of-month.html

Just in case the SPX closes higher again on Wednesday I decided to take a look at the combination of 3 up days under the 200ma on the last day of the month. Those results are below.

| SPX closes higher for at least the 3rd day in a row to end the month. SPX < 200ma Buy on close. Sell next days close. $100k/trade. 1987 - present. | | | | |
|---|---|---|---|---|
| **Date/Time** | **Signal** | **Price** | **% Profit** | **Run-up Drawdown** |
| 10/30/87 | Buy | $251.78 | 1.58% | $1,576.09 |
| 11/02/87 | Sell | $255.75 | | ($1,048.08) |
| 10/31/00 | Buy | $1,429.39 | (0.57%) | $14.49 |
| 11/01/00 | Sell | $1,421.22 | | ($1,306.86) |
| 07/31/02 | Buy | $911.62 | (2.96%) | $0.00 |
| 08/01/02 | Sell | $884.66 | | ($3,176.26) |
| 07/30/04 | Buy | $1,101.72 | 0.44% | $619.20 |
| 08/02/04 | Sell | $1,106.62 | | ($394.20) |
| 11/30/07 | Buy | $1,481.11 | (0.59%) | $3.35 |
| 12/03/07 | Sell | $1,472.41 | | ($739.01) |
| 05/30/08 | Buy | $1,400.35 | (1.05%) | $0.00 |
| 06/02/08 | Sell | $1,385.68 | | ($1,601.76) |
| 11/28/08 | Buy | $896.24 | (8.93%) | $0.00 |
| 12/01/08 | Sell | $816.21 | | ($8,941.05) |
| 08/31/11 | Buy | $1,218.89 | (1.19%) | $852.80 |
| 09/01/11 | Sell | $1,204.42 | | ($1,233.28) |

Nothing concrete but early inclinations appear bearish rather than the typical Day 1 bullish. It may be worth keeping this in mind.

I have updated the Aggregator chart below.


The green Aggregator Line didn't move much and remains modestly positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line continued its dive and is now well below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are modestly bullish but the SPX is already overbought versus recent expectations. This is considered a neutral configuration. Neutral configurations can be seen on the chart whenever both lines close on opposite sides of 0. This all caused the Aggregator System to turn from long to flat at the close. This was posted to the Systems page shortly before the bell.

The short-term active studies are currently set up to remain net positive on Wednesday. Of course this could change if bearish evidence emerges. With the low number of studies currently active, expectations will be largely dependent on action over the next few days. The Differential Pivot will be 1,166.84 on Wednesday. This is 2.4% below Tuesday's close. So it would take a drop of at least his much in order to move the Differential Line back into positive territory.

My SPY positions are now flat (though I still hold my XIV). With the market overbought it seems like a good time to step aside for a day or two until the next substantial edge emerges.

I will note that while the 3-day expectations are positive the 1-day expectations for Wednesday are actually negative. With the overbought market condition this has caused the 1-day risk/reward at the top of the letter to turn negative.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 11/28 – moderately bullish***

Selling intensified this past week despite the bullish seasonality. The triangle breakdown from about a week and a half ago shows no sign of being a "false" breakdown (as 70% of them are) and instead is very close to the 1,150 projection target already. The move up, which was so strong in October, will soon be in jeopardy of failing unless the market can get its act together soon.

A couple of studies with intermediate-term consequences triggered this past week. Both appeared in the 11/22 letter and I have copied both of their results tables below. The 1st one was bullish. It looked at instances where drops of 1.75% or more surrounded a smaller SPX decline.

SPX closes down > 1.75% today and 2 days ago. Yesterday it was down but < 1.75%.
Buy on close. Sell X days later. $100k/trade. 1961 - present.

| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Avg Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|---|---|---|---|---|---|---|---|---|---|---|
| 10 | 69,714.98 | 20 | 17 | 3 | 85.00 | 4,958.12 | -4,857.67 | 1.02 | 5.78 | 3,485.75 |
| 9 | 57,843.58 | 20 | 15 | 5 | 75.00 | 5,003.34 | -3,441.29 | 1.45 | 4.36 | 2,892.18 |
| 8 | 55,882.82 | 20 | 15 | 5 | 75.00 | 4,838.73 | -3,339.62 | 1.45 | 4.35 | 2,794.14 |
| 7 | 48,627.22 | 20 | 16 | 4 | 80.00 | 4,441.95 | -5,610.98 | 0.79 | 3.17 | 2,431.36 |
| 6 | 51,365.59 | 20 | 16 | 4 | 80.00 | 3,933.71 | -2,893.46 | 1.36 | 5.44 | 2,568.28 |
| 5 | 57,064.27 | 20 | 15 | 5 | 75.00 | 4,344.18 | -1,619.70 | 2.68 | 8.05 | 2,853.21 |
| 4 | 40,353.37 | 20 | 18 | 2 | 90.00 | 3,089.24 | -7,626.43 | 0.41 | 3.65 | 2,017.67 |
| 3 | 35,545.85 | 21 | 18 | 3 | 85.71 | 3,063.90 | -6,534.80 | 0.47 | 2.81 | 1,692.66 |
| 2 | 28,025.00 | 21 | 15 | 6 | 71.43 | 2,585.03 | -1,791.74 | 1.44 | 3.61 | 1,334.52 |
| 1 | 16,728.82 | 21 | 14 | 7 | 66.67 | 2,023.24 | -1,656.65 | 1.22 | 2.44 | 796.61 |

The only instance that failed to close above the entry price at some point in the next 4 days triggered on 10/6/08.

The short-term is not playing out well for this study but it still could provide an intermediate-term influence.

The 2nd study considered the lackadaisical VIX that accompanied the strong selling. In contrast to the 1st study this one suggested bearish implications.

SPX closes under lower Bollinger Band. VIX closes < 5% above its 10ma.
Buy on close. Sell X days later. $100k/trade. 1993 - present.

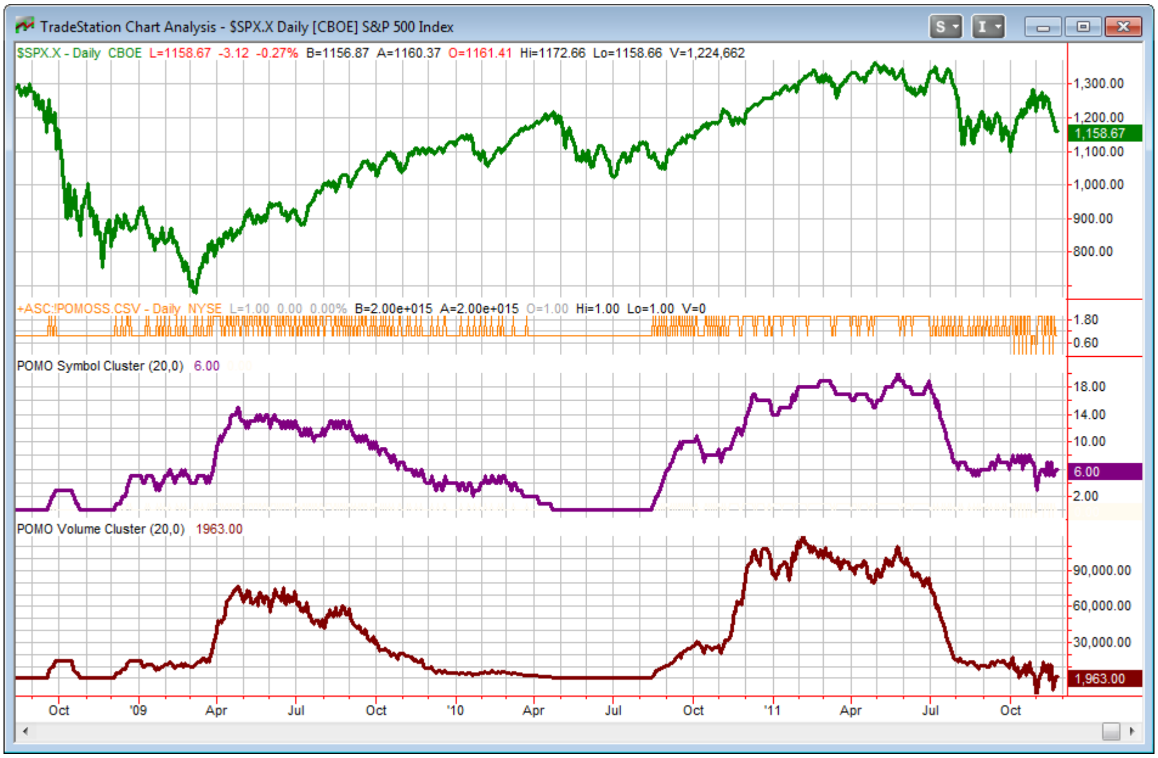
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Avg Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|---|---|---|---|---|---|---|---|---|---|---|
| 10 | -27,756.96 | 13 | 3 | 10 | 23.08 | 3,980.17 | -3,969.75 | 1.00 | 0.30 | -2,135.15 |
| 9 | -17,483.61 | 13 | 3 | 10 | 23.08 | 4,289.90 | -3,035.33 | 1.41 | 0.42 | -1,344.89 |
| 8 | -18,035.78 | 13 | 5 | 8 | 38.46 | 2,405.37 | -3,757.83 | 0.64 | 0.40 | -1,387.37 |
| 7 | -11,937.07 | 13 | 5 | 8 | 38.46 | 2,799.08 | -3,241.56 | 0.86 | 0.54 | -918.24 |
| 6 | -11,355.32 | 13 | 4 | 9 | 30.77 | 2,527.03 | -2,384.83 | 1.06 | 0.47 | -873.49 |
| 5 | -11,337.35 | 13 | 4 | 9 | 30.77 | 2,485.77 | -2,364.49 | 1.05 | 0.47 | -872.10 |
| 4 | -8,856.23 | 13 | 5 | 8 | 38.46 | 1,663.96 | -2,147.00 | 0.78 | 0.48 | -681.25 |
| 3 | -6,991.57 | 14 | 7 | 7 | 50.00 | 954.52 | -1,953.31 | 0.49 | 0.49 | -499.40 |
| 2 | -11,444.51 | 15 | 5 | 10 | 33.33 | 770.48 | -1,529.69 | 0.50 | 0.25 | -762.97 |
| 1 | -4,673.56 | 17 | 6 | 11 | 35.29 | 970.08 | -954.01 | 1.02 | 0.55 | -274.92 |

This one played out short-term, and it could continue to exert some influence.

I've been updating the POMO chart most weekends in the letter. For those who may not recall below is a brief refresher on POMO. Beneath that I have updated our POMO indicator chart.

*POMO stands for Permanent Open Market Operations and it is how the Fed goes into the open market to buy securities. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A "POMO Day" is simply a day where these operations take place… The chart below (shows a couple of POMO indicators). The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Information on acquiring the data and constructing the chart can be found in the January 3rd POMO presentation linked below. (Not available for trial users.)*

*http://www.quantifiableedges.com/members/pomo.php*




This week the Fed withdrew a net $9.6 billion from the system with sales swamping purchases. As you can see the net volume over the last 20 days is now just $1.9 billion injected, and earlier this week that number actually dipped into negative territory for the 2nd time in recent weeks.

The next operations schedule is set to be released on Wednesday the 30th, so we will see then how December shapes up for liquidity support (or resistance) from the Fed. Currently there is buying scheduled for Monday and Tuesday, and then selling on Wednesday. The schedule suggests Wednesday's selling will likely exceed the buying total of Monday and Tuesday.

There was a strong thrust in the market that began at basically the same time as Operation Twist. Perhaps that was initial excitement over the Fed's new plan. As it became clear that Operation Twist would not provide the kind of liquidity support that QE1 and QE2 did the market seems to have floundered.

The intermediate-term is somewhat mixed. I'm still optimistic that the strong breadth and price thrusts that accompanied the rally in October were not false signals. It is unusual to see such early strength quickly dissipate and lead to another leg down for the market. Although seasonalities have not played out well recently, December is typically a strong month for the market. I'm inclined to maintain a bullish posture at this point, though I have reduced the strength of my outlook some.

## Catapult and Capitulative Breadth Statistics

*Catapult & CBI Presentation Link*

***Open Catapult Triggers***

*None.*

***Catapult for ETF's Trades***

*None.*

***Broad Market Large Cap CBI – 0***

## Additional New Trade Ideas

*A full listing of system triggers can be found at the system triggers page each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.*

***None tonight*.**

AVP, the Catapult from the last 2 nights, never filled and triggered an exit on Tuesday.

## Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|---|---|---|---|---|---|---|
| XIV(1/2) | 11/17/2011 | $5.21 | $5.23 | 0.38% | | sell @ $5.26 limit |
| XIV(1/2) | 11/21/2011 | $4.91 | $5.23 | 6.52% | | VIX-based ETF systems |
| ***SPY(1/4)*** | ***11/21/2011*** | ***$119.66*** | ***$120.05*** | ***0.33%*** | | ***sold on close*** |
| | | | | | | |
| | | | | | | |

*SPY was sold at the close as mentioned in last night's letter.*

*I'll look to take profits on 1 lot of XIV midway between Tuesday's close and Tuesday's high.*